

DEPARTMENT OF HAWAIIAN HOME LANDS
STATE OF HAWAII

FINANCIAL STATEMENTS
WITH ACCOMPANYING INFORMATION
FOR THE YEAR ENDED JUNE 30, 2002

AND

INDEPENDENT AUDITORS' REPORT

December 20, 2002

Mr. Raynard C. Soon, Chairman
Office of the Chairman
Department of Hawaiian Home Lands
State of Hawaii

Dear Mr. Soon:

This is our report on the audit of the financial statements of the Department of Hawaiian Home Lands, State of Hawaii, for the year ended June 30, 2002. Our audit was performed in accordance with the terms of our contract with the Department.

OBJECTIVES OF THE AUDIT

The primary purpose of our audit was to form an opinion on the fairness of the presentation of the Department of Hawaiian Home Lands, State of Hawaii's financial statements for the year ended June 30, 2002.

More specifically, the objectives of the audit were as follows:

1. To provide a basis for an opinion on the fairness of the presentation of the Department of Hawaiian Home Lands, State of Hawaii's financial statements.
2. To determine whether expenditures have been made and all revenues and other receipts to which the Department of Hawaiian Home Lands, State of Hawaii, is entitled have been collected and accounted for in accordance with the laws, rules and regulations, and policies and procedures of the State of Hawaii.
3. To evaluate the adequacy of the Department of Hawaiian Home Lands, State of Hawaii's internal control over financial reporting to determine whether there is effective control over and proper accounting of revenues, expenditures, disbursements, assets and liabilities and to comply with the applicable laws and regulations.

SCOPE OF THE AUDIT

Our audit was performed in accordance with auditing standards generally accepted in the United States of America, as prescribed by the American Institute of Certified Public Accountants, and Government Auditing Standards, issued by the Comptroller General of the United States, as they pertain to financial audits. The scope of our audit included a general audit of the financial transactions and accounting records of the Department of Hawaiian Home Lands, State of Hawaii, for the year ended June 30, 2002. In addition, as part of our determination as to whether the Department of Hawaiian Home Lands, State of Hawaii, has effective controls over and proper accounting of revenues, receipts, expenditures, disbursements, assets and liabilities we considered the internal control over financial reporting.

We wish to express our appreciation for the excellent cooperation and assistance extended by the officers and staff of the Department of Hawaiian Home Lands, State of Hawaii.

Sincerely,

DEPARTMENT OF HAWAIIAN HOME LANDS
STATE OF HAWAII

TABLE OF CONTENTS

	<u>Page</u>
PART I FINANCIAL SECTION	4
Financial Statements	5
Independent Auditors' Report	6
Statement of Net Assets, June 30, 2002	8
Statement of Activities, for the year ended June 30, 2002	9
Balance Sheet – Governmental Funds, June 30, 2002	10
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds, for the year ended June 30, 2002	11
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets, June 30, 2002	12
Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities, for the year ended June 30, 2002	14
Statement of Revenues and Expenditures - Budget and Actual - General Fund, for the year ended June 30, 2002	16
Notes to the Financial Statements	17
Supplemental Information	40
Combining Balance Sheet – Nonmajor Governmental Funds, June 30, 2002	41
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds, for the year ended June 30, 2002	42
PART II COMPLIANCE AND INTERNAL CONTROL	43
Independent Auditors' Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	44

PART I

FINANCIAL SECTION

FINANCIAL STATEMENTS

Independent Auditors' Report

Chairman
Hawaiian Home Lands Commission
State of Hawaii

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Department of Hawaiian Home Lands, State of Hawaii, as of and for the year ended June 30, 2002, which collectively comprise the Department's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the management of the Department of Hawaiian Home Lands, State of Hawaii. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note A to the financial statements, the financial statements of the Department of Hawaiian Home Lands, State of Hawaii, are intended to present the financial position, and the changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Hawaii as of June 30, 2002, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Department of Hawaiian Home Lands, State of Hawaii, as of June 30, 2002, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A to the financial statements, the Department of Hawaiian Home Lands, State of Hawaii, has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as of June 30, 2002.

The Department of Hawaiian Home Lands, State of Hawaii, has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department of Hawaiian Home Lands, State of Hawaii's, basic financial statements. The information on the Combining Balance Sheet - Nonmajor Governmental Funds and Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds, are presented for purposes of additional analysis and is not a required part of the basic financial statements. The Combining Balance Sheet - Nonmajor Governmental Funds and Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated November 8, 2002 on our consideration of the Department of Hawaiian Home Lands, State of Hawaii's, internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Honolulu, Hawaii
November 8, 2002

Department of Hawaiian Home Lands		
State of Hawaii		
Statement of Net Assets		
June 30, 2002		
ASSETS		
Cash and short-term cash investments held in State Treasury (Note C)	\$	175,932,373
Receivables (Note D):		
Loans, net of allowance for losses of \$5,021,000		44,942,909
Accrued interest		5,465,343
Note receivable (Note F)		4,274,196
General leases and licenses, net of allowance for losses of \$1,234,000		745,022
Other		126,976
Other assets (Note K)		150,000
Capital assets:		
Land, improvements, construction-in-progress and		
other capital assets, net of depreciation (Note I)		274,265,911
Total assets	\$	505,902,730
LIABILITIES		
Vouchers and contracts payable	\$	2,284,698
Accrued wages and employee benefits payable (Note B)		303,189
Due to State of Hawaii		10,000
Other liabilities		2,629,468
Deferred revenue (Note P)		477,165
Bonds payable (Note J):		
Due within one year		1,218,250
Due in more than one year		13,695,051
Accrued vacation (Note J):		
Due within one year		-
Due in more than one year		1,154,014
Total liabilities		21,771,835
Commitments and contingencies (Notes K ,L, M, N and O)		
NET ASSETS		
Invested in capital assets, net of related debt		259,352,610
Unrestricted		224,778,285
Total net assets		484,130,895
Total liabilities and net assets	\$	505,902,730
The accompanying notes are an integral part of the financial statements.		

Department of Hawaiian Home Lands

State of Hawaii

Statement of Activities

for the year ended June 30, 2002

[illegible]

Department of Hawaiian Home Lands											
State of Hawaii											
Balance Sheet											
Governmental Funds											
June 30, 2002											
			Hawaiian Home	Hawaiian Home	Department of Hawaiian Home	Hawaiian Home	Hawaiian Home	Hawaiian Home			
	General	General Loan	Lands Trust	Lands Revenue	Operating	Receipts	Administration	Temporary	Other		
	Fund	Fund	Fund	Bond Special Fund	Fund	Fund	Account	Deposits	Funds	Total	
ASSETS											
Cash and short-term cash investments held in State Treasury (Note C)	\$ 115,024	\$ 19,596,630	\$ 80,844,758	\$ 30,492,279	\$ 11,446,056	-	\$ 7,483,841	\$ 1,323,135	\$ 24,630,650	\$ 175,932,373	
Receivables (Note D):											
Loans, net of allowance for losses of \$5,021,000	-	40,877,135		-	-	-	-	-	4,065,774	44,942,909	
Accrued interest	-	-	1,005,926	404,091	50,375	3,798,785	35,950	-	170,216	5,465,343	
Note receivable	-	-	4,274,196	-	-	-	-	-	-	4,274,196	
General leases and licenses, net of allowance for losses of \$1,234,000	-	-	-	-	210	-	744,812	-	-	745,022	
Other	-	1,499	-	-	124,311	-	1,166	-	-	126,976	
Other assets (Note K)	-	150,000	-	-	-	-	-	-	-	150,000	
Total assets	\$ 115,024	\$ 60,625,264	\$ 86,124,880	\$ 30,896,370	\$ 11,620,952	\$ 3,798,785	\$ 8,265,769	\$ 1,323,135	\$ 28,866,640	\$ 231,636,819	
LIABILITIES											
Vouchers and contracts payable	\$ 848	\$ -	\$ 1,818,589	\$ -	\$ 273,866	\$ -	\$ 82,376	\$ 18,000	\$ 91,019	\$ 2,284,698	
Accrued wages and employee benefits payable (Note B)	54,534	-	-	-	105,476	-	143,179	-	-	303,189	
Due to State of Hawaii	10,000	-	-	-	-	-	-	-	-	10,000	
Other liabilities	-	1,333,284	-	-	105,419	85,882	-	1,103,135	1,748	2,629,468	
Deferred revenue (Note P)	-	-	-	-	197,895	3,350,000	868,270	-	-	4,416,165	
Total liabilities	65,382	1,333,284	1,818,589	-	682,656	3,435,882	1,093,825	1,121,135	92,767	9,643,520	
Commitments and contingencies (Notes K, L, M, N, and O)											
FUND BALANCES											
Reserved for:											
Encumbrances	104,036	-	23,491,500	-	4,168,211	-	463,043	-	2,471,729	30,698,519	
Receivables (Note D)	-	40,878,634	5,280,122	404,091	174,896	3,798,785	781,928	-	4,235,990	55,554,446	
Loan commitments (Note E)	-	777,318	-	-	-	-	-	-	-	777,318	
Guaranteed and insured loans (Note K)	-	150,000	-	-	-	-	-	-	10,850,100	11,000,100	
Total reserved fund balances	104,036	41,805,952	28,771,622	404,091	4,343,107	3,798,785	1,244,971	-	17,557,819	98,030,383	
Unreserved	(54,394)	17,486,028	55,534,669	30,492,279	6,595,189	(3,435,882)	5,926,973	202,000	-	112,746,862	
Unreserved reported in nonmajor:											
Special revenue funds	-	-	-	-	-	-	-	-	11,146,095	11,146,095	
Capital projects fund	-	-	-	-	-	-	-	-	69,959	69,959	
Total unreserved fund balances	(54,394)	17,486,028	55,534,669	30,492,279	6,595,189	(3,435,882)	5,926,973	202,000	11,216,054	123,962,916	
Total fund balances	49,642	59,291,980	84,306,291	30,896,370	10,938,296	362,903	7,171,944	202,000	28,773,873	221,993,299	
Total liabilities and fund balances	\$ 115,024	\$ 60,625,264	\$ 86,124,880	\$ 30,896,370	\$ 11,620,952	\$ 3,798,785	\$ 8,265,769	\$ 1,323,135	\$ 28,866,640	\$ 231,636,819	
The accompanying notes are an integral part of the financial statements.											

Department of Hawaiian Home Lands
State of Hawaii
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
for the year ended June 30, 2002

	General	Hawaiian Home General Loan Fund	Hawaiian Home Lands Trust Fund	Department of Hawaiian Home Lands Revenue Bond Special Fund	Hawaiian Home Operating Fund	Hawaiian Home Receipts Fund	Hawaiian Home Administration Account	Temporary Deposits	Other Funds	Total
	Fund		Fund		Fund	Fund				
Revenues										
Appropriations	\$ 1,522,600	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,522,600
General leases	-	-	-	-	-	-	6,012,237	-	-	6,012,237
Licenses and permits	-	-	-	-	-	-	816,788	-	226,012	1,042,800
Interest from loans and note receivable	-	-	-	-	-	2,676,671	-	-	-	2,676,671
Interest from short-term cash investments	-	-	2,651,577	790,905	25,805	1,663,319	287,202	-	475,058	5,893,866
Intergovernmental revenues	-	-	71,878	-	-	-	356,743	-	15,100	443,721
Home sales (Note H)	-	-	11,225,504	-	-	-	-	-	-	11,225,504
Other	-	-	618,548	-	343,504	-	28,693	-	123	990,868
Total revenues	1,522,600	-	14,567,507	790,905	369,309	4,339,990	7,501,663	-	716,293	29,808,267
Expenditures										
Current:										
Administration and support services	578,243	1,173,000	50,453	3,685	1,784,265	-	2,091,450	-	1,063,155	6,744,251
Homestead services	491,190	-	-	-	786,701	-	1,456,581	-	13,578	2,748,050
Land development	140,819	-	68,919	-	565,912	-	633,654	18,000	7,371	1,434,675
Land management	160,773	-	-	-	590,484	-	616,471	-	70,429	1,438,157
Capital outlay:										
Home construction/capital projects	-	-	13,070,263	-	879,240	-	-	-	317,964	14,267,467
Cost of homes sold (Note H)	-	-	8,374,097	-	-	-	-	-	803,643	9,177,740
Debt service:										
Principal on long-term debt	-	-	-	800,000	210,919	-	-	-	-	1,010,919
Interest on long-term debt	-	-	-	580,113	82,292	-	-	-	-	662,405
Total expenditures	1,371,025	1,173,000	21,563,732	1,383,798	4,899,813	-	4,798,156	18,000	2,276,140	37,483,664
Excess (deficiency) of revenues over (under) expenditures	151,575	(1,173,000)	(6,996,225)	(592,893)	(4,530,504)	4,339,990	2,703,507	(18,000)	(1,559,847)	(7,675,397)
Other financing sources (uses)										
Operating transfers in (Note L)	-	-	30,000,000	4,879,020	4,510,247	-	3,085,195	-	2,500	42,476,962
Operating transfers out	-	-	-	(2,000,000)	-	(4,593,130)	(5,881,520)	-	(2,312)	(12,476,962)
Total other financing sources (uses)	-	-	30,000,000	2,879,020	4,510,247	(4,593,130)	(2,796,325)	-	188	30,000,000
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	151,575	(1,173,000)	23,003,775	2,286,127	(20,257)	(253,140)	(92,818)	(18,000)	(1,559,659)	22,324,603
Lapsed appropriations	(54,294)	-	-	-	-	-	-	-	(47,352)	(101,646)
Net change in fund balances	97,281	(1,173,000)	23,003,775	2,286,127	(20,257)	(253,140)	(92,818)	(18,000)	(1,607,011)	22,222,957
Fund balances at July 1, 2001	(47,639)	60,464,980	61,302,516	28,610,243	10,958,553	616,043	7,264,762	220,000	30,380,884	199,770,342
Fund balances at June 30, 2002	\$ 49,642	\$ 59,291,980	\$ 84,306,291	\$ 30,896,370	\$ 10,938,296	\$ 362,903	\$ 7,171,944	\$ 202,000	\$ 28,773,873	\$ 221,993,299

The accompanying notes are an integral part of the financial statements.

State of Hawaii

Reconciliation of Governmental Funds Balance

Sheet to the Statement of Net Assets

		Total	Long-Term						
		Governmental	Assets,			Reclassifications			Statement of
		Funds	Liabilities			and Eliminations			Net Assets
ASSETS									
Cash and short-term cash investments held									
in State Treasury	\$ 175,932,373	\$ -	\$ -						\$ 175,932,373
Receivables:									
Loans, net of allowance for losses	44,942,909	-	-			-			44,942,909
Accrued interest	5,465,343	-	-			-			5,465,343
Note receivable	4,274,196	-	-			-			4,274,196
General leases and licenses, net of allowance									
for losses	745,022	-	-			-			745,022
Other	126,976	-	-			-			126,976
Other assets	150,000	-	-			-			150,000
Capital assets:									
Land, improvements, construction-in-progress									
and other capital assets, net of depreciation	-	274,265,911 (1)	-			-			274,265,911
Total assets	\$ 231,636,819	\$ 274,265,911	\$ -			\$ -			\$ 505,902,730
LIABILITIES									
Vouchers and contracts payable	\$ 2,284,698	-	-			-			\$ 2,284,698
Accrued wages and employee benefits payable	303,189	-	-			-			303,189
Due to State of Hawaii	10,000	-	-			-			10,000
Other liabilities	2,629,468	-	-			-			2,629,468
Deferred revenue	4,416,165	(3,939,000) (4)							477,165
Bonds payable:						-			
Due within one year	-	1,218,250 (2)	-			-			1,218,250
Due in more than one year	-	13,695,051 (2)							13,695,051
Accrued vacation:						-			
Due within one year	-	-	-			-			-
Due in more than one year	-	1,154,014 (3)							1,154,014
						-			
Total liabilities	9,643,520	12,128,315							21,771,835
FUND BALANCES/NET ASSETS									
Invested in capital assets, net of related debt	-	267,399,781 (1)	-			-			259,352,610
		(916,459) (1)	-			-			
		14,267,467 (1)	-			-			
		(6,484,878) (1)	-			-			
		(15,916,707) (2)	-			-			
		1,010,919 (2)	-			-			
		(7,513) (2)							
Reserved/Restricted for:									
Encumbrances	30,698,519	-	(30,698,519) (5)			-			-
Receivables	55,554,446	-	(55,554,446) (5)			-			-
Loan commitments	777,318	-	(777,318) (5)			-			-
Guaranteed and insured loans	11,000,100	-	(11,000,100) (5)			-			-
Unreserved/Unrestricted:	123,962,916	(1,098,335) (3)	98,030,383 (5)						224,778,285
		(55,679) (3)							
		3,758,000 (4)							
		181,000 (4)							
Total fund balances/net assets	221,993,299	262,137,596	-						484,130,895
Total liabilities and fund balances/net assets	\$ 231,636,819	\$ 274,265,911	\$ -			\$ -			\$ 505,902,730
The accompanying notes are an integral part of the financial statements.									

Department of Hawaiian Home Lands
State of Hawaii

Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2002 (continued)

Total fund balances - governmental funds	\$	221,993,299
--	----	-------------

Amounts reported for governmental activities in the statement of net assets are different because:

- (1) Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:

Infrastructure assets	\$	203,657,837	
Other capital assets		6,277,205	
Accumulated depreciation		(62,812,042)	
Land		17,535,594	
Construction in progress		<u>109,607,317</u>	
Total capital assets			274,265,911

- (2) Bonds payable that are not due and payable in the current period are not reported in the funds. (14,913,301)

- (3) Compensated absences that are not due and payable in the current period are not reported in the funds. (1,154,014)

- (4) Lease rents and loan interest receivables not available soon enough after year end to pay for the current period's expenditures and are therefore deferred in the funds. 3,939,000

- (5) Reclassify reserved fund balance/net assets to unrestricted fund balance/net assets. -

Total net assets	\$	<u><u>484,130,895</u></u>
------------------	----	---------------------------

The accompanying notes are an integral part of the financial statements.

Department of Hawaiian Home Lands
State of Hawaii

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
for the year ended June 30, 2002

	Total Governmental Funds	Long-Term Assets, Liabilities	Reclassifications and Eliminations	Statement of Activities
Revenues				
Appropriations	\$ 1,522,600	\$ -	\$ (101,646) (5)	\$ 1,420,954
General leases	6,012,237	(332,000) (4)	-	5,680,237
Licenses and permits	1,042,800	-	-	1,042,800
Interest from loans and note receivable	2,676,671	513,000 (4)	-	3,189,671
Interest from short-term cash investments	5,893,866	-	-	5,893,866
Intergovernmental revenues	443,721	-	-	443,721
Home sales	11,225,504	-	-	11,225,504
Other	990,868	-	-	990,868
	<u>29,808,267</u>	<u>181,000</u>	<u>(101,646)</u>	<u>29,887,621</u>
Expenditures				
Administration and support services	6,744,251	28,192 (1)	-	6,835,634
		7,512 (2)	-	
		55,679 (3)	-	
Homestead services	2,748,050	6,454,366 (1)	662,405 (6)	9,864,821
Land development	1,434,675	2,320 (1)	-	1,436,995
Land management	1,438,157	-	-	1,438,157
Home construction/capital projects	14,267,467	(14,267,467) (1)	-	-
Cost of homes sold	9,177,740	-	-	9,177,740
Principal on long-term debt	1,010,919	(1,010,919) (2)	-	-
Interest on long-term debt	662,405	-	(662,405) (6)	-
	<u>37,483,664</u>	<u>(8,730,317)</u>	<u>-</u>	<u>28,753,347</u>
	(7,675,397)	8,911,317	(101,646)	1,134,274
Other financing sources and lapsed appropriations:				
Net operating transfers	30,000,000	-	-	30,000,000
Lapsed appropriations	(101,646)	-	101,646 (5)	-
	<u>\$ 22,222,957</u>	<u>\$ 8,911,317</u>	<u>\$ -</u>	<u>\$ 31,134,274</u>

The accompanying notes are an integral part of the financial statements

**Department of Hawaiian Home Lands
State of Hawaii**

Reconciliation of Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances
to the Statement of Activities
for the year ended June 30, 2002 (continued)

Change in fund balances - governmental funds \$ 22,222,957

Amounts reported for governmental activities in the statement of activities are different because:

- (1) Capital outlays are reported as expenditures in governmental funds, however in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these outlays are:

Capital outlay	\$	14,267,467	
Depreciation expense		<u>(6,484,878)</u>	
Excess of capital outlay over depreciation expenses			7,782,589

- (2) Repayment of bond principal is reported as an expenditure in governmental funds, but the repayment reduces bonds payable in the statement of net assets. Also, the increase in bonds payable due to premiums from refunding bonds is shown in the statement of net assets.

Repayment of bond principal	\$	1,010,919	
Premium from refunding bonds issued		<u>(7,512)</u>	
Net bond repayments			1,003,407

- (3) The increase in accrued vacation is reported in the statement of activities and does not require the use of current financial resources and is therefore not reported as expenditures in governmental funds. (55,679)

- (4) Lease rent and loan interest that is not collected for several months after June 30 are not considered available revenues and are deferred in the governmental funds. Deferred revenues increased by this amount in the current year. 181,000

- (5) Lapsed appropriations are net against appropriations in the statement of activities. -

- (6) Reclassify interest from on long-term to function Homestead Services Division. -

Change in net assets \$ 31,134,274

The accompanying notes are an integral part of the financial statements.

Department of Hawaiian Home Lands
State of Hawaii
Statement of Revenues and Expenditures - Budget and Actual -
General Fund
for the year ended June 30, 2002

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Positive (Negative)
Appropriations	\$ 1,522,600	\$ 1,522,600	\$ 1,522,600	-
Expenditures:				
Administration and support services	697,550	697,550	604,947	92,603
Homestead services	509,573	509,573	489,977	19,596
Land development	84,932	84,932	140,994	(56,062)
Land management	230,545	230,545	236,503	(5,958)
Total expenditures	<u>1,522,600</u>	<u>1,522,600</u>	<u>1,472,421</u>	<u>50,179</u>
Excess of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,179</u>	<u>\$ 50,179</u>

The accompanying notes are an integral part of the financial statements.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The Department of Hawaiian Home Lands (DHHL), State of Hawaii (the State), is headed by the Hawaiian Homes Commission. The DHHL was established by Section 24, of Act 1 (the Hawaii State Government Reorganization Act of 1959), Second Special Session Laws of Hawaii 1959, and is responsible for the administration of the Hawaiian Homes Commission Act of 1920 enacted by the United States Congress. The Hawaiian Homes Commission Act (HHCA) sets aside certain public lands as Hawaiian Home Lands to be utilized in the rehabilitation of native Hawaiians.

The accompanying financial statements of the DHHL have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999 the GASB issued Statement 34 Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. This Statement establishes new financial reporting requirements for state and local governments throughout the United States of America. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

Other GASB Statements are required to be implemented in conjunction with GASB Statement 34. Therefore, the DHHL has implemented, if applicable, the following GASB Statements in the current year: Statement 33 – Accounting and Financial Reporting for Nonexchange Transactions, Statement 36 – Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37 – Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus and Statement 38 – Certain Financial Statement Note Disclosures.

The accompanying financial statements present the financial position of the DHHL and the various funds and fund types and the changes in financial position of the DHHL and the various funds and fund types. The financial statements are presented as of June 30, 2002, and for the year then ended. The financial statements include the public trusts controlled by the Hawaiian Homes Commission.

The following is a summary of significant accounting policies:

1. Reporting Entity - The DHHL is part of the executive branch of the State. The DHHL’s financial statements are intended to present the financial position and the changes in financial position, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the DHHL. The State Comptroller maintains the central accounts for all State funds and publishes financial statements for the State annually which includes the DHHL’s assets, liabilities, net assets and financial activities.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

2. Departmental and Governmental Fund Financial Statements – The departmental financial statements (the statement of net assets and the statement of activities) report information of all of the non-fiduciary activities of the DHHL. The effect of interfund activity has been removed from these departmental financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Appropriations and other items not properly included among program revenues are reported instead as general revenues. Resources that are dedicated internally are reported as general revenues rather than as program revenues.

Net assets are restricted when constraints placed on them are either externally imposed or are imposed by constitutional provisions or enabling legislation. At June 30, 2002, there were no restricted net assets.

Internally imposed designations of resources are presented as reserves of fund balances. Portions of fund balances are reserved for the following:

- Receivables - amounts owed to the DHHL at year end.
- Loan commitments - loans approved before year end but funded after year end.
- Guaranteed and insured loans - amounts designated to pay mortgage guarantees and insurance claims.

Unreserved fund balances represents resources that have not been internally designated.

Financial statements are provided for DHHL's governmental funds. The DHHL has no proprietary funds or fiduciary funds. Major individual governmental funds are reported as separate columns in the governmental fund financial statements.

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation –

Departmental Financial Statements – The departmental financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued) –

Governmental Fund Financial Statements – The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the DHHL considers revenues to be available if they are collected within 60 days of the end of the current fiscal year end. Principal revenue sources considered susceptible to accrual include lease payments, sales, federal grants and interest on loans and investments, and loan principal and interest receivable. Some revenue items that are considered measurable and available to finance operations during the year from an accounting perspective are not available for expenditure due to the State's present appropriation system. These revenues have been accrued in accordance with accounting principles generally accepted in the United States of America since they are both measurable and are expected to be collected within sixty days of the end of the period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Exceptions include:

- Employees' vested annual leave which is recorded as an expenditure when utilized. The amount of accumulated annual leave unpaid at June 30, 2002, has been reported only in the departmental financial statements.
- Interest on bonds payable which is recognized when paid.

4. Fund Accounting – The accounts of the DHHL are organized on the basis of funds, each of which is considered a separate accounting entity. The financial activities of each fund are accounted for with a separate set of self-balancing accounts which represent each funds' assets, liabilities, fund equity, revenues and expenditures.

The financial activities of the DHHL that are reported in the accompanying governmental fund financial statements have been classified into the following major governmental funds:

General fund – The general fund is used to account for all financial activities except those required to be accounted for in another fund. The annual operating budget as authorized by the State Legislature provides the basic framework within which the resources and obligations of the general fund are accounted for.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Accounting (continued) –

Special revenue funds – Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trust) that are restricted to expenditures for specified purposes. Revenues are primarily from general leases, licenses and permits granted for commercial, residential, agricultural and pastoral uses, and interest and investment income. DHHL's major special revenue funds are as follows:

Hawaiian Home General Loan Fund – This fund accounts for DHHL loans made to native Hawaiian homesteaders.

Hawaiian Home Operating Fund – This fund accounts for operations of the DHHL and is funded by monies transferred from the Hawaiian Home Receipts Fund.

Hawaiian Home Receipts Fund – This fund accounts for receipts of investment interest and loan interest payments from DHHL loans to homesteaders.

Hawaiian Home Administration Account – This fund accounts for commercial general leases, revocable permits and licenses of homestead lands. Lease revenues are used to fund operations of the DHHL.

Temporary Deposits – This fund accounts for refundable deposits to lessees of homestead lands.

Hawaiian Home Lands Trust Fund – This expendable trust fund accounts for funds from the State to be expended by the DHHL as provided by law upon approval by the Commission and used for capital improvements and other purposes undertaken in furtherance of the Hawaiian Homes Commission Act of 1920.

Department of Hawaiian Home Lands Revenue Bond Special Fund – This fund serves as DHHL's debt service fund and accounts for the accumulation of resources for payment of general long-term debt principal and interest. The principal sources of funds are transfers of funds from revenues from available lands and interest earned.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

5. Appropriations - An authorization granted by the State Legislature permitting a State agency, within established fiscal and budgetary controls, to incur obligations and to make expenditures. Appropriations are allotted quarterly. The allotted appropriations lapse if not expended by or encumbered at the end of the fiscal year, except for allotted appropriations related to capital projects.
6. Encumbrances - Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental fund types. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.
7. Cash and Short-term Cash Investments - Cash and short-term cash investments reported in the statement of net assets and the governmental funds balance sheet consist of cash and short-term cash investments in the State Treasury.

The State of Hawaii maintains a cash pool that is available for all funds. Each fund type's portion of this pool is displayed on the statement of net assets and the governmental funds balance sheet within cash and short-term cash investments. Those funds are pooled with funds from other State agencies and departments and deposited in approved financial institutions by the State Director of Finance. Deposits not covered by federal deposit insurance are fully collateralized by government securities held in the name of the State by third party custodians. Interest income from this cash pool is allocated to the various departments and agencies based upon their average cash balance for the period.

The Hawaii Revised Statutes (HRS) authorized the State Director of Finance to invest in obligations of or obligations guaranteed by, the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

8. Accumulated Vacation and Sick Leave - Eligible employees are credited with vacation at a rate of 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end. The governmental fund financial statements record expenditures when employees are paid for leave. The departmental financial statements present the cost of accumulated vacation leave as a liability. Liabilities for vacation pay are inventoried at the end of each accounting period and adjusted to current salary levels.

Eligible employees are credited with sick leave at a rate of one and three-quarter days per month of service. Unused sick leave may be accumulated without limit but can be taken only in the event of illness or other incapacitation and is not convertible to pay upon termination of employment. Accordingly, accumulated sick leave is not included in the DHHL's statement of net assets or governmental fund balance sheet. However, an employee who retires or leaves government service in good standing with sixty days or more in unused sick leave is entitled to additional service credit in the Employees' Retirement System of the State of Hawaii (ERS). Accumulated sick leave as of June 30, 2002 was approximately \$3,268,100.

9. Intrafund and Interfund Transactions - Significant transfers of financial resources between activities and appropriations included within the same fund are eliminated. Transfers of revenues from funds authorized to receive them to funds authorized to expend them have been recorded as operating transfers in the financial statements.

All interfund transfers are reflected in the governmental fund financial statements but are eliminated in the departmental financial statements.

10. Inventory - Inventory of materials and supplies is recorded as expenditures when purchased.
11. Inventory of Homes for Sale - The direct costs of homes constructed by the DHHL are included in inventory for the purpose of accumulating costs to match with sales revenues. Infrastructure costs, which includes the grading of land, roads, sidewalks, utility lines and sewers, are capitalized in fixed assets.

The sale of homes are recorded, and profit or loss is recognized in full, at the time of closing. The apportionment of total cost and total profit is in the same ratio as to the sales price.

At June 30, 2002, the DHHL did not have any inventory of homes for sale.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

12. Capital Assets – To be in compliance with GASB Statement 34, at July 1, 2001, DHHL capitalized infrastructure such as streets, gutters, curbs, sidewalks, and draining and lighting systems. Capital assets, which include, land, buildings, improvements, equipment and infrastructure assets are reported in the departmental financial statements. Capital assets are assets which have a cost of \$5,000 or more at the date of acquisition and have an expected useful life of five or more years. Purchased and constructed capital assets are valued at historical cost or estimated historical cost. Donated fixed assets are recorded at their fair market value at the date of donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense is recorded in the departmental financial statements.

Capital assets are depreciated on the straight-line method over the assets' estimated useful life. There is no depreciation recorded for land and construction in progress. Generally, estimated useful lives are as follows:

Machinery and equipment	5 – 7 years
Vehicles	5 years
Buildings and other improvements	15 – 40 years
Infrastructure	30 years

Certain office space is provided by the Department of Accounting and General Services, State of Hawaii, at no cost to the DHHL.

The DHHL also has land in various parts of the State, some of which were transferred to it at no cost or at nominal cost.

13. General Leases and Licenses - General leases and licenses received in advance are recognized on a straight-line basis over the lease or license term. As of June 30, 2002, amounts received in advance approximated \$119,000 and are recorded as deferred revenue (see Note P).

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE A - SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Lease Rents and Interest Income - The DHHL's governmental fund financial statements recognizes lease rent and mortgage interest of its governmental funds as revenues when they are measurable and available. Revenues are measurable when they are subject to reasonable estimation. The available criterion is satisfied when revenues are collectible during the period and the actual collection will occur either during the period or after the end of the period, but in time to pay fund liabilities. The DHHL considers revenues available if they are expected to be collected within 60 days of the end of the year. Amounts not collected within this period approximated \$3,939,000 as of June 30, 2002 and are recorded as deferred revenue. The departmental financial statements present lease rents and mortgage interest under the accrual method of accounting.
15. Use of Estimates - In preparing financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B - BUDGETING AND BUDGETARY CONTROL

The DHHL's annual budget is prepared on the cash basis utilizing encumbrance accounting. Revenue estimates are provided to the State Legislature at the time of budget consideration and are revised and updated throughout the fiscal year. Amounts reflected by the DHHL as budgeted revenues are those estimates as compiled by the State Director of Finance. Budgeted expenditures for the DHHL's general fund and the Hawaiian Homes administration account, a DHHL special revenue fund, are provided to the Department of Budget and Finance, State of Hawaii, for accumulation with budgeted amounts of the other State agencies and included in the Governor's executive budget that is subject to legislative approval. In addition, the budget for all expenditures of the DHHL's funds are also presented annually to the Hawaiian Homes Commission for approval.

To the extent not expended or encumbered, general fund appropriations generally lapse at the end of the fiscal year for which the appropriations were made. The State Legislature specifies the lapse date and any other particular conditions relating to terminating the authorization for other appropriations.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)

For purposes of budgeting, the DHHL's budgetary fund structure and accounting principles differ from those utilized to present the financial statements in conformity with accounting principles generally accepted in the United States of America. Since the budgetary basis differs from accounting principles generally accepted in the United States of America, budget and actual amounts in the statement of revenues and expenditures – budget and actual – general fund, are presented on the budgetary basis. A reconciliation of general fund revenues in excess of expenditures on a budgetary basis for the year ended June 30, 2002, to general fund revenues in excess of expenditures presented in conformity with accounting principles generally accepted in the United States of America, is set forth below.

Under Section 78-13 HRS, staff salaries and wages amounting to \$54,394 in the general fund, for the period from June 16, 2002 through June 30, 2002, are to be funded with monies budgeted for fiscal 2003. Accordingly, this amount is excluded from the statement of revenues and expenditures – budget and actual – general fund. For accounting purposes this amount is reflected in the departmental and governmental fund financial statements at June 30, 2002, in accordance with accounting principles generally accepted in the United States of America.

In fiscal 2001, under section 78-13 HRS salaries and wages for the period from June 16, 2001 to June 30, 2001, were funded with monies budgeted for fiscal 2002. In addition, at June 30, 2001, the DHHL accrued certain salaries and wages for the period prior to June 16, 2001 and certain goods and services received through June 30, 2001, which the DHHL funded with monies budgeted for fiscal 2002. Accordingly, these amounts are included in the statement of revenues and expenditures – budget and actual – general fund, for the year ended June 30, 2002. These salaries, wages, goods and services aggregated \$51,220 for the general fund.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE B - BUDGETING AND BUDGETARY CONTROL (continued)

The following schedule reconciles the general fund's budgetary amounts to the amounts presented in accordance with accounting principles generally accepted in the United States of America (GAAP basis).

Excess of revenues over expenditures - actual on budgetary basis	\$ 50,179
Current year's appropriations included in reserved for encumbrances at June 30, 2002	104,036
Expenditures for liquidation of prior years' encumbrances	(1,977)
Fiscal 2001 salaries and wages and other expenditures funded by fiscal 2002 budget	51,220
Fiscal 2002 salaries and wages funded by fiscal 2003 budget under Section 78-13 HRS	(54,394)
Other	<u>2,511</u>
Excess of revenues over expenditures - GAAP basis	<u><u>\$ 151,575</u></u>

NOTE C - CASH AND SHORT-TERM CASH INVESTMENTS

Cash and short-term cash investments includes monies in the State Treasury. The State Treasury maintains an investment pool for all state monies. Hawaii Revised Statutes (HRS) authorize the State Director of Finance to invest any monies of the State which in the Director's judgment are in excess of amounts necessary for meeting the immediate requirements of the State. Legally authorized investments include obligations of or guaranteed by the U.S. Government, obligations of the State, federally-insured savings and checking accounts, time certificates of deposit and repurchase agreements with federally-insured financial institutions.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE C - CASH AND SHORT-TERM INVESTMENTS (continued)

Information relating to the bank balance, insurance and collateral of cash deposits is determined on a statewide basis and not for individual departments or divisions.

As of June 30, 2002, the carrying amount, which approximates the bank balance, of the DHHL's cash and short-term cash investments was \$175,932,373.

NOTE D - RECEIVABLES

As of June 30, 2002, receivables consisted of the following:

Loans (see Note E)	\$ 49,963,909
Allowance for losses	(5,021,000)
Accrued interest	5,465,343
Note receivable (Note F)	4,274,196
General leases and licenses (see Note G)	1,979,022
Allowance for losses	(1,234,000)
Other	<u>126,976</u>
	<u>\$ 55,554,446</u>

As of June 30, 2002, general leases and licenses receivable included installment agreements with eight lessees with an aggregate balance of approximately \$405,000. The agreements provide for varying monthly or quarterly payments, accrued interest at 10% per annum and varying terms extending through March 2009.

NOTE E - LOANS RECEIVABLE

Loans receivable consist of approximately 1,700 loans made to native Hawaiian lessees for the purposes specified in the Hawaiian Homes Commission Act. Loans are for a maximum amount of approximately \$192,000 and for a maximum term of 30 years. Interest rates on outstanding loans range from 2.5% to 10.0%. The DHHL's loan portfolio consists of loans that the DHHL has originated and that generally are collateralized by improvements on the leased properties located in the State. Loan commitments as of June 30, 2002 were \$777,318. The DHHL has provided an allowance for loan losses as of June 30, 2002. The allowance for loan losses is a valuation reserve, which has been provided through charges to operations. This charge to operations is the amount necessary, in the opinion of management, to maintain the balance in the allowance for loan losses at a level adequate to absorb potential losses for loans in the loan portfolio as of June 30, 2002.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Combined Financial Statements
June 30, 2002

NOTE F – NOTE RECEIVABLE

The DHHL has a note receivable from the developer of the DHHL's Waimanalo Kupuna Housing Project in the amount of \$4,274,196. The DHHL paid development costs for this project and will be reimbursed after the developer obtains permanent financing for the project. The note is non-interest bearing and is due 18 months after the completion of the project.

NOTE G – GENERAL LEASES AND LICENSES

The DHHL's general leasing operations (Section 204 of Hawaiian Homes Commission Act of 1920, as amended) consist principally of the leasing of its Hawaiian Home Lands. The general leases have varying terms extending through 2059.

The future minimum lease income from general leases as of June 30, 2002, is as follows:

<u>Year ending June 30,</u>	
2003	\$ 5,347,000
2004	5,344,000
2005	5,383,000
2006	5,351,000
2007	5,296,000
Thereafter	<u>155,260,000</u>
	<u>\$ 181,981,000</u>

As of June 30, 2002, approximately 60% of the DHHL's land (based on acreage) was under homestead or general leases and license agreements. The cost of this land was not significant.

NOTE H - HOME SALES

The DHHL plans to construct 111 homes for sale to native Hawaiians in the Village of Kapolei on the island of Oahu. During the year ended June 30, 2002, 71 homes were sold and recognized as home sales. The DHHL does not expect to incur any significant liability or warranties related to these sales. As a result of these sales, the DHHL recognized revenues over capitalized costs of approximately \$2,048,000, for the year ended June 30, 2002.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE I – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2002, was as follows:

	Beginning Balance July 1, 2001	Increases	Decreases	Reclassifications And Adjustments	Ending Balance June 30, 2002
Capital assets, not being depreciated - Land	\$ 17,505,000	\$ -	\$ -	\$ 30,594	\$ 17,535,594
Construction in progress	97,367,389	12,239,928	-	-	109,607,317
Total capital assets, not being depreciated	114,872,389	12,239,928	-	30,594	127,142,911
Capital assets, being depreciated - Buildings and improvements	4,680,772	331,972	-	157,619	5,170,363
Furniture and equipment	1,485,852	23,016	-	(1,090,093)	418,775
Motor vehicles	660,852	57,489	(15,695)	(14,579)	688,067
Infrastructure	202,042,775	1,615,062	-	-	203,657,837
Total capital assets, being depreciated	208,870,251	2,027,539	(15,695)	(947,053)	209,935,042
Less: accumulated depreciation for - Buildings and improvements	(2,286,066)	(161,655)	-	-	(2,447,721)
Furniture and equipment	(298,073)	(22,465)	-	-	(320,538)
Motor vehicles	(559,617)	(48,785)	15,695	-	(592,707)
Infrastructure	(53,199,103)	(6,251,973)	-	-	(59,451,076)
Total accumulated depreciation	(56,342,859)	(6,484,878)	15,695	-	(62,812,042)
Total capital assets, being depreciated, net	152,527,392	(4,457,339)	-	(947,053)	147,123,000
Capital assets, net	\$ 267,399,781	\$ 7,782,589	\$ -	\$ (916,459)	\$ 274,265,911

The implementation of GASB 34 requires that infrastructure assets be recorded in the statement of net assets. Accordingly, as of June 30, 2001, the DHHL recorded \$202,042,775 of infrastructure additions since 1980, accumulated depreciation of \$53,199,103 and \$95,157,536 of construction in progress of infrastructure assets to capital assets.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE I – CAPITAL ASSETS (continued)

Effective July 1, 2001, the State's capitalization policy was changed. Accordingly, furniture and equipment and motor vehicles are capitalized when greater than \$5,000 and buildings and land improvements are capitalized when greater than \$100,000. The retroactive change in policy resulted in write-offs of approximately \$916,000. In addition, during the year ended June 30, 2002, certain assets were reclassified.

Depreciation expense for the year ended June 30, 2002, was charged to functions of the DHHL as follows:

Administration and support services	\$ 28,192
Homestead services	6,454,366
Land development	<u>2,320</u>
Total depreciation	<u>\$ 6,484,878</u>

NOTE J – LONG-TERM OBLIGATIONS

For the year ended June 30, 2002, changes in long-term obligations were as follows:

	Accrued Vacation	Bonds Payable
Balances at July 1, 2001	\$ 1,098,335	\$ 15,916,707
Principal payments		(1,010,919)
	-	
Bonds issued	-	206,122
Bonds refunded	-	(198,609)
Net increase in accrued vacation	<u>55,679</u>	<u>-</u>
Balances at June 30, 2002	<u>\$ 1,154,014</u>	<u>\$ 14,913,301</u>

Obligations for accrued vacation are generally liquidated by the general fund, the Hawaiian Home Operating fund and the Planning, Development and Management of Homestead Land fund.

Bonds Payable

Revenue Bonds -

The State Legislature, by Act 316, SLH 1989, as amended by Act 299, SLH 1990, and further amended by Act 296, SLH 1991, authorized the issuance of revenue bonds amounting to \$43,768,000 to finance the cost of developing Hawaiian home lands. Of the total amount authorized, the DHHL issued \$18,000,000 of 1991 series revenue bonds in October 1991.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE J - LONG-TERM OBLIGATIONS (continued)

Bonds Payable (continued)

Revenue Bonds (continued) -

On January 15, 1999, the DHHL issued \$13,370,000 of 1999 series revenue bonds to advance refund \$12,060,000 of outstanding 1991 series revenue bonds. The net proceeds of \$13,055,195, after payment of issuance cost and \$207,950 of the DHHL's funds, were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991 series revenue bonds. As a result, the 1991 series revenue bonds are considered to be deceased and the liability for those bonds has been removed from the general long-term debt account.

The revenue bonds are payable from and collateralized by the DHHL's revenues from available lands and are due in annual installments through July 1, 2011. The balance of bonds payable as of June 30, 2002, is \$13,370,000 for the 1999 series revenue bonds.

The unrefunded series 1991 bonds were repaid on July 1, 2001.

Interest on the series 1999 bonds increases annually from 3.8% to 4.45% and is payable semi-annually on January 1 and July 1. Commencing on July 1, 2002, annual principal payments are required.

At June 30, 2002, all of remaining principal had been spent on capital projects.

The annual requirements of the 1999 series revenue bonds are as follows:

<u>Year ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2003	\$ 530,528	\$ 1,115,000	\$ 1,645,528
2004	486,820	1,155,000	1,641,820
2005	440,298	1,200,000	1,640,298
2006	391,298	1,250,000	1,641,298
2007	339,973	1,300,000	1,639,973
2008	285,870	1,355,000	1,640,870
2009	228,835	1,410,000	1,638,835
2010	168,446	1,465,000	1,633,446
2011	104,146	1,525,000	1,629,146
2012	35,489	1,595,000	1,630,489
Total	<u>\$ 3,011,703</u>	<u>\$ 13,370,000</u>	<u>\$ 16,381,703</u>

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE J - LONG-TERM OBLIGATIONS (continued)

Bonds Payable (continued)

General Obligation Bonds -

The following are portions of the State general obligation bonds allocated to the DHHL under acts of various Session Laws of Hawaii. These bonds are backed by the full faith, credit and taxing power of the State. Repayments of allocated bond debts are made to the State General Fund. Details of the allocated bonds as of June 30, 2002, are as follows:

\$1,000,346 Series BW bonds dated March 1, 1992; \$166,708 was refunded on February 15, 2002; due in annual principal installments of \$55,569 commencing March 1, 2006 through March 1, 2012; interest at 5.875% to 6.40% payable semi-annually	\$ 388,984
\$124,303 Series BZ bonds dated October 1, 1992; \$7,769 was refunded on April 1, 1998 and \$23,307 was refunded on February 15, 2002; due in annual principal installments of \$7,769 commencing October 1, 2005 through October 1, 2012; interest at 5.40% to 6.25% payable semi-annually	62,151
\$758,726 Series CI refunding bonds dated November 1, 1993; due in annual principal installments of \$50,587 through November 1, 2003 and \$50,575 through November 1, 2010; interest at 4.20% to 4.90% payable semi-annually	455,202
\$66,394 Series CH bonds dated November 1, 1993; \$55,335 was refunded on October 1, 1997; due in annual principal installments of \$3,689 through November 1, 2013; interest at 4.10% to 6.00% payable semi-annually	44,261
\$25,782 Series CJ bonds dated January 1, 1995; \$8,594 was refunded on April 1, 1998 and \$8,594 was refunded on February 15, 2002; due in one annual principal installment of \$4,297 on July 1, 2002; interest at 5.625% to 5.80% payable semi-annually	4,297

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE J - LONG-TERM OBLIGATIONS (continued)

Bonds Payable (continued)

General Obligation Bonds (continued) -

\$86,517 Series CO bonds dated March 1, 1997; \$11,940 was refunded on April 1, 1998; due in semi-annual principal installments of \$2,646 to \$4,250 through March 1, 2011; interest at 4.625% to 6.00% payable semi-annually	\$ 60,313
\$1,062 Series CQ refunding bonds dated October 1, 1997; due in annual principal installments of \$158 to \$174 through October 1, 2004; interest at 4.25% to 5.00% payable semi-annually	499
\$321,472 Series CS refunding bonds dated April 1, 1998; due in annual principal installments of \$39,227 on April 1, 2003; \$41,289 on April 1, 2004; \$43,457 on April 1, 2005; \$45,740 on April 1, 2006; \$48,137 on April 1, 2007; \$50,548 on April 1, 2008 and \$53,074 on April 1, 2009; interest at 5.00% to 5.25% payable semi-annually	321,472
\$65,992 Series CW refund bonds dated August 1, 2001; due in annual principal installments of \$4,679 on August 1, 2005; \$4,873 on August 1, 2006; \$5,073 on August 1, 2007; \$5,311 on August 1, 2008; \$5,585 on August 1, 2009; \$5,885 on August 1, 2010; \$6,203 on August 1, 2011; \$6,540 on August 1, 2012; \$6,896 on August 1, 2013; \$7,273 on August 1, 2014; \$7,674 on August 1, 2015	65,992
\$140,129 Series CY refunding bonds dated February 15, 2002; due in annual principal installments of \$12,633 on February 1, 2007; \$13,217 on February 1, 2008; \$13,910 on February 1, 2009; \$14,582 on February 1, 2010; \$15,347 on February 1, 2011; \$16,192 on February 1, 2012; \$17,081 on February 1, 2013; \$18,064 on February 1, 2014 and \$19,104 on February 1, 2015; interest at 3.60% to 5.75% payable semi-annually	<u>140,130</u>
	<u><u>\$ 1,543,301</u></u>

At June 30, 2002, all of the remaining principal had been spent on capital projects.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE J - LONG-TERM OBLIGATIONS (continued)

Bonds Payable (continued)

General Obligation Bonds (continued) -

The annual requirements of the general obligation bonds are as follows:

<u>Year ending June 30,</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2003	\$ 65,835	\$ 103,250	\$ 169,085
2004	61,913	101,297	163,210
2005	57,982	103,772	161,754
2006	53,619	174,256	227,875
2007	45,378	189,858	235,236
2008	36,768	193,455	230,223
2009	27,978	197,341	225,319
2010	19,862	145,665	165,527
2011	12,391	147,212	159,603
2012	6,231	89,421	95,652
2013	1,762	35,078	36,840
2014	966	28,648	29,614
2015	468	26,375	26,843
2016	34	7,673	7,707
Total	<u>\$ 391,187</u>	<u>\$ 1,543,301</u>	<u>\$ 1,934,488</u>

NOTE K - COMMITMENTS AND CONTINGENCIES

Litigation -

The DHHL is involved in several lawsuits and complaints which management believes arose in the normal course of operations. Based on discussions with counsel, management has ascertained that lawsuits and complaints against the State of Hawaii are typically paid through an appropriation from the General Fund of the State of Hawaii. Accordingly, management is of the opinion that the outcome of these lawsuits and complaints will not have a material adverse effect on the financial position of the DHHL.

Insurance -

Insurance coverage is maintained at the State level. The State is substantially self-insured for all perils including workers' compensation. Effective July 1, 1997, all benefits paid for workers' compensation are reflected in the respective department or agency's financial statements. No benefits were paid by the DHHL for the year ended June 30, 2002. Expenditures for other insurance claims are made by the Department of Accounting and General Services, State of Hawaii, and are not reflected in the DHHL financial statements. Workers' compensation benefit claims reported, as well as incurred but not reported, were reviewed at year end. The estimated losses from these claims are not material.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE K - COMMITMENTS AND CONTINGENCIES (continued)

Deferred Compensation Plan -

In 1983, the State established a deferred compensation plan which enables State employees to defer a portion of their compensation. The Department of Human Resources Development, State of Hawaii, has the fiduciary responsibility of administering the plan. The plan assets are protected from claims of the State's creditors and from diversion to any uses other than paying benefits to participants and beneficiaries. The deferred compensation is not available to employees until termination, retirement, death or any unforeseeable emergency.

Guaranteed and Insured Loans -

As of June 30, 2002, the DHHL was contingently liable for approximately \$10,418,000 in loans originated primarily by the U.S. Department of Agriculture Rural Development for which the DHHL has guaranteed repayment. A total of \$625,000 of these loans has been reported delinquent as of June 30, 2002.

The DHHL is also a party to a mortgage loan insurance agreement with the U.S. Department of Housing and Urban Development (HUD). The agreement provides that HUD will perform underwriting processing for the insurance of mortgage and will administer an insurance fund for mortgages originated and held by HUD-approved lenders. The DHHL will maintain and provide the necessary and proper funds for payment of any mortgage insurance claims and expenditures incurred by HUD in connection with the lessee borrowers. The DHHL has reserved cash of approximately \$10,850,100 in the special revenue fund and has deposited \$150,000 with HUD. As of June 30, 2002, loans outstanding totaled approximately \$199,308,000 under this agreement, of which \$8,326,000 has been reported as delinquent.

As of June 30, 2002, the DHHL is also contingently liable for approximately \$11,914,000 in loans originated by financial institutions and other lenders for which it has guaranteed repayment. A total of \$2,481,000 of these loans has been reported delinquent as of June 30, 2002.

As of June 30, 2002, the DHHL paid approximately \$5,260,000 for delinquent mortgage loan payments of lessees. These payments are carried as loans receivable from lessees and bear similar terms as stipulated in the lessees' mortgage note with the lenders.

The DHHL has certain loans for which the collateral for the loans is not covered by casualty insurance. The number of such loans is not known.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE K - COMMITMENTS AND CONTINGENCIES (continued)

Other -

As of June 30, 2002, the reserve for encumbrances relating to construction contracts approximated \$329,000.

NOTE L - COMPENSATION FOR PAST USE OF HAWAIIAN HOME LANDS BY THE
STATE OF HAWAII

Pursuant to Act 14, SP SLH 1995, the Hawaiian Home Lands Trust Fund was established to account for funds to be paid by the State for the use or disposition of lands, which were alleged to have been Hawaiian home lands or covered by the Hawaiian Homes Commissions Act of 1920 arising between August 21, 1959 and June 30, 1988.

Act 14 requires the State to make twenty annual payments of \$30 million in cash or such other consideration as agreed to between the State and the Department of Hawaiian Home Lands. Interest is determined as provided in Act 14 on the unpaid balance of any funds due, but not appropriated, by the end of each respective fiscal year. The DHHL received \$30,000,000 in the current year as a transfer from the Department of Budget and Finance, State of Hawaii, to the Hawaiian Home Lands Trust Fund.

NOTE M - HAWAIIAN HOME LANDS TRUST INDIVIDUAL CLAIMS

In 1991, the Legislature enacted HRS Chapter 674 entitled "Individual Claims Resolution Under the Hawaiian Home Lands Trust" which establishes a process for individual beneficiaries of the Hawaiian Home Lands Commission Act of 1920 to file claims to recover actual economic damages they believed they suffered from a breach of trust that occurred between August 21, 1959, when Hawaii became a state and June 30, 1988. The breach must have been caused by an act or omission of an employee or officer of the State in the management and disposition of trust resources.

A Hawaiian Home Lands Trust Individual Claims Review Panel (Panel) was established under Chapter 674 to receive claims of individual beneficiaries. The Panel is required to prepare a record of each claim, including the Panel's non-binding findings and an advisory opinion concerning the probable merits of the claim. The Panel's advisory findings and advisory opinions, which are issued after adversarial hearings, must be submitted to the Legislature. The Legislature may take such action upon the claims as it deems appropriate. If the Legislature's proffered resolution is not satisfactory to a claimant, a civil action for corrective action and the recovery of actual economic damages could be initiated after October 1, 1999, but no later than December 31, 1999.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE M - HAWAIIAN HOME LANDS TRUST INDIVIDUAL CLAIMS (continued)

The deadline to file a claim with the Panel was August 31, 1995. A total of 4,327 claims were filed by 2,753 individuals. As of September 1999, claims from 1,376 claimants had not been reviewed by the Panel, and all but the claims of two claimants had not been acted upon by the Legislature. In 1997, the Legislature declared it to be its intent to postpone acting upon the Panel's recommendations until all claims had been reviewed and forwarded to it.

Also arising from Chapter 674, in December 1999, three claimants filed a class action lawsuit in the State Circuit Court for declaratory and injunctive relief, and for damages under HRS Chapter 673 for the Panel's and Legislature's alleged failure to remedy their breach of trust claims under HRS Chapter 674. In August 2000, the Circuit Court entered an order granting the plaintiffs' motion for summary judgment and declaratory relief as to Count I of the Complaint, and denied the State's motions on the pleadings. The plaintiff is appealing the judgment relating to the other Counts in the lawsuit with the State Supreme Court. Five other claimants filed similar individual claims actions for themselves. The plaintiffs in these other actions have stipulated to stay all proceedings in their actions pending the resolution of all questions of law in the class action lawsuit that are common to the questions of law presented in their suits. Outcome of these cases are pending.

Claims for actual damages under Chapter 674 are made against the State of Hawaii. Accordingly, counsel for the DHHL does not believe that the final settlement of the claims will have an impact on the DHHL's funds.

NOTE N - ASSESSMENTS FOR CENTRAL SERVICE AND ADMINISTRATIVE
EXPENSES

The State of Hawaii has asserted that the DHHL is liable for its pro rata share of central service and administrative expenses incurred by the State in accordance with Sections 36-27 and 36-30, Hawaii Revised Statutes. Pursuant to Section 36-31, Hawaii Revised Statutes, the DHHL maintains that their funds are trust funds and are not subject to the special fund assessments. Accordingly, no provision for any liability has been made in the accompanying financial statements.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE N - ASSESSMENTS FOR CENTRAL SERVICE AND ADMINISTRATIVE
EXPENSES (continued)

Effective July 1, 1998, Act 27, SLH 1998 amended Section 213 of the Hawaiian Homes Commissions Act and reclassified certain special funds as trust funds.

The DHHL's estimate of the asserted assessments is as follows:

<u>Year ending June 30,</u>	
1994	\$ 1,300,000
1995	2,200,000
1996	2,100,000
1997	1,900,000
1998	1,900,000
1999	377,000
2000	444,000
2001	383,000
2002	357,000
	<u>\$ 10,961,000</u>

NOTE O - RETIREMENT BENEFITS

Substantially all employees of the DHHL are required by Chapter 88 of the Hawaii Revised Statutes to become members of the Employees' Retirement System of the State of Hawaii (ERS), a cost sharing multiple employer public employee retirement plan. The ERS provides retirement benefits as well as death and disability benefits. Prior to June 30, 1984, the ERS consisted only of a contributory plan. In 1984, legislation was enacted to create a new noncontributory plan for members of the ERS who are also covered under Social Security. Persons employed in positions not covered by Social Security are excluded from the noncontributory plan. The noncontributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984. Employees hired before that date were allowed to continue under the contributory plan or to elect the new noncontributory plan and receive a refund of employee contributions. All benefits vest after five and ten years of credited service under the contributory and noncontributory plans, respectively. Contributions for employees of the DHHL are paid from the State General Fund.

Actuarial valuations are prepared for the entire ERS and are not separately computed for each department or agency. Information on vested and nonvested benefits and other aspects of the ERS is also not available on a departmental or agency basis.

Department of Hawaiian Home Lands
State of Hawaii
Notes to the Financial Statements
June 30, 2002

NOTE O - RETIREMENT BENEFITS (continued)

The State's policy is to fund its required contribution annually. The DHHL's share of the retirement system expense for the year ended June 30, 2002, was included as an item to be expended by the Department of Budget and Finance, State of Hawaii, and is not reflected in the DHHL's financial statements. There were no contributions expended from the special revenue funds for the year ended June 30, 2002. The entire ERS' actuarial determination of the employer contribution requirements were met as of June 30, 2002.

The ERS issues a publicly available financial report that includes financial statements and required supplemental information. That report may be obtained from the ERS.

In addition to providing pension benefits, the State provides certain health care and life insurance benefits to all DHHL employees who retire from the State on or after attaining age 62 with at least 10 years of service or age 55 with at least 30 years of service under the noncontributory option and age 55 with at least 5 years of service under the contributory option. There are currently approximately 28,715 State retirants receiving such benefits. Retirants credited with at least 10 years of service, excluding sick leave credit, qualify for free medical insurance premiums; however, retirants with less than 10 years must assume a portion of the monthly premiums. All disability retirants who retired after June 30, 1984, with less than 10 years of service also qualify for free medical insurance premiums. Free life insurance coverage for retirants and free dental coverage for dependents under age 19 are also available. Retirants covered by the medical portion of Medicare are eligible to receive a reimbursement of the basic medical coverage premiums. Contributions are based upon negotiated collective bargaining agreements, and are funded by the State as accrued.

NOTE P - RELATED PARTY

The DHHL received approximately \$2,300,000 from the Department of Education, State of Hawaii, in the fiscal year ended June 30, 1996. This amount represented a lump-sum payment for lease rent due for the continued State use of trust lands under Nanaikapono Elementary School between April 4, 1996 and October 27, 2002. Approximately \$119,000 is included in deferred revenue as of June 30, 2002 and \$357,000 has been recognized as license and permit income during the year ended June 30, 2002.

During the year ended June 30, 2000, certain parcels of land located in Kealahou, Hawaii were transferred from the Department of Land and Natural Resources, State of Hawaii, to the DHHL.

As part of this transfer, the DHHL reimbursed the Department of Business, Economic Development and Tourism, Housing and Community Development Corporation of Hawaii (HCDC), State of Hawaii, \$1,816,000 for infrastructure improvements to the land. The reimbursement was made in annual payments of \$454,025 in fiscal years 2000 and 2001 and a final payment of \$908,050 in fiscal year 2002.

SUPPLEMENTAL INFORMATION

Department of Hawaiian Home Lands
State of Hawaii
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2002

	Hawaiian Home Loan Fund	Hawaiian Home Trust Fund	Native Hawaiian Rehabilitation Fund	Federal Grant Funds	Protocol Funds	Construction Funds	Total Other Governmental Funds
ASSETS							
Cash and short-term cash investments held in State Treasury	\$ 740,885	\$ 10,850,100	\$ 12,621,744	\$ -	\$ 2,338	\$ 415,583	\$ 24,630,650
Receivables							
Loans, net of allowance for losses	4,061,925	-	3,849	-	-	-	4,065,774
Accrued interest	-	-	170,209	-	7	-	170,216
Total assets	<u>\$ 4,802,810</u>	<u>\$ 10,850,100</u>	<u>\$ 12,795,802</u>	<u>\$ -</u>	<u>\$ 2,345</u>	<u>\$ 415,583</u>	<u>\$ 28,866,640</u>
LIABILITIES							
Vouchers and contracts payable	\$ -	\$ -	\$ 74,440	\$ -	\$ -	\$ 16,579	\$ 91,019
Other liabilities	1,748	-	-	-	-	-	1,748
Total liabilities	<u>1,748</u>	<u>-</u>	<u>74,440</u>	<u>-</u>	<u>-</u>	<u>16,579</u>	<u>92,767</u>
FUND BALANCES							
Reserved for:							
Encumbrances	-	-	2,122,372	20,312	-	329,045	2,471,729
Receivables	4,061,925	-	174,058	-	7	-	4,235,990
Guaranteed and insured loans	-	10,850,100	-	-	-	-	10,850,100
Total reserved fund balances	<u>4,061,925</u>	<u>10,850,100</u>	<u>2,296,430</u>	<u>20,312</u>	<u>7</u>	<u>329,045</u>	<u>17,557,819</u>
Unreserved reported in nonmajor:							
Special revenue funds	739,137	-	10,424,932	(20,312)	2,338	-	11,146,095
Capital projects fund	-	-	-	-	-	69,959	69,959
Total unreserved fund balances	<u>739,137</u>	<u>-</u>	<u>10,424,932</u>	<u>(20,312)</u>	<u>2,338</u>	<u>69,959</u>	<u>11,216,054</u>
Total fund balances	<u>4,801,062</u>	<u>10,850,100</u>	<u>12,721,362</u>	<u>-</u>	<u>2,345</u>	<u>399,004</u>	<u>28,773,873</u>
Total liabilities and fund balances	<u>\$ 4,802,810</u>	<u>\$ 10,850,100</u>	<u>\$ 12,795,802</u>	<u>\$ -</u>	<u>\$ 2,345</u>	<u>\$ 415,583</u>	<u>\$ 28,866,640</u>

Department of Hawaiian Home Lands								
State of Hawaii								
Combining Statement of Revenues, Expenditures and Changes in Fund Balances -								
Nonmajor Governmental Funds								
for the year ended June 30, 2002								
			Native Hawaiian					Total Other
	Hawaiian Home	Hawaiian Home	Rehabilitation	Federal Grant	Protocol	Construction		Governmental
	Loan Fund	Trust Fund	Fund	Funds	Funds	Funds		Funds
Revenues								
Licenses and permits	\$ -	\$ -	\$ 226,012	\$ -	\$ -	\$ -		\$ 226,012
Interest from short-term cash investments	-	-	474,952	-	106	-		475,058
Intergovernmental revenues	-	-	-	15,100	-	-		15,100
Other	-	-	123	-	-	-		123
Total revenues	-	-	701,087	15,100	106	-		716,293
Expenditures								
Current:								
Administration and support services	115,000	-	947,894	-	261	-		1,063,155
Homestead services	-	-	13,578	-	-	-		13,578
Land development	-	-	54,723	-	-	(47,352)		7,371
Land management	-	-	55,329	15,100	-	-		70,429
Capital outlay:								
Home construction/capital projects	-	-	152,964	-	-	165,000		317,964
Cost of homes sold	-	-	803,643	-	-	-		803,643
Total expenditures	115,000	-	2,028,131	15,100	261	117,648		2,276,140
Excess of expenditures over revenues	(115,000)	-	(1,327,044)	-	(155)	(117,648)		(1,559,847)
Other financing sources (uses)								
Operating transfers in	-	-	-	-	2,500	-		2,500
Operating transfers out	-	-	-	-	(2,312)	-		(2,312)
Total other financing sources	-	-	-	-	188	-		188
Excess (deficiency) of revenues and other financing sources								
over (under) expenditures and other financing uses	(115,000)	-	(1,327,044)	-	33	(117,648)		(1,559,659)
Lapsed appropriations	-	-	-	-	-	(47,352)		(47,352)
Net change in fund balances	(115,000)	-	(1,327,044)	-	33	(165,000)		(1,607,011)
Fund balances at July 1, 2001	4,916,062	10,850,100	14,048,406	-	2,312	564,004		30,380,884
Fund balances at June 30, 2002	\$ 4,801,062	\$ 10,850,100	\$ 12,721,362	\$ -	\$ 2,345	\$ 399,004		\$ 28,773,873

Independent Auditors' Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards

Hawaiian Home Lands Commission
State of Hawaii

We have audited the financial statements of the Department of Hawaiian Home Lands, State of Hawaii, as of and for year ended June 30, 2002, and have issued our report thereon dated November 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Department of Hawaiian Home Lands, State of Hawaii's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including applicable provisions of the Hawaii Public Procurement Code (Chapter 103D of Hawaii Revised Statutes), and procurement rules, directives and circulars, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department of Hawaiian Home Lands, State of Hawaii's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting, which we have reported to management of the Department of Hawaiian Home Lands, State of Hawaii, in a separate letter dated November 8, 2002.

This report is intended solely for the information and use of the management of the Department of Hawaiian Home Lands, State of Hawaii, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Honolulu, Hawaii
November 8, 2002